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WHY HAVE ALL WESTERN INTERNET FIRMS (WIFs) FAILED IN CHINA?

A PHENOMENON-BASED RESEARCH

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ABSTRACT

This paper uses phenomenon based research to examine why all western internet firms (WIFs) have failed in China. In contrast to western firms from other sectors which have all achieved different levels of success in China, no WIFs, from search engines, internet content providers, social networks, to e-commerce and sharing economy platforms, have been able to beat their Chinese competitors and achieve sustainable operational success in China. Government censorship and control and cultural differences between China and the West are often cited as the main reasons for such failures, but similar conditions existed in other countries, such as Indonesia, Thailand or Saudi Arabia, which did not prevent WIFs such as Google from dominating over 90% of their search markets. Existing international business theory, the Ownership-Location-Internalisation (OLI) Eclectic Paradigm, failed to offer plausible explanations. Using comprehensive empirical evidence gathered from two rounds of elite interviewing, this paper identifies the key factors and the prevailing narratives from both the inside view and outside view to explain why all WIFs have failed in China. The theoretical and managerial implications are discussed. Future research should examine the key factors that led to the systematic failure of WIFs in China, particularly by testing propositions and developing new theoretical frameworks. The lessons from this research will shed light on our understanding of globalisation strategies in rapid changing industries, with potential implications for general management theories in the digital age.

Key words: Western Internet Firm (WIF), Chinese Internet Firm (CIF), Digital Firm, China, International Business, Multinational, Competitive Advantage, Failure

INTRODUCTION

One peculiar phenomenon is that no western internet firms (WIFs)¹, from Google, Amazon, eBay to Uber, have been able to beat their Chinese competitors and achieve sustainable operational success in China. This is in sharp contrast to western firms from other sectors, including automotive, home electronics, fast moving consumer goods and professional services, all of which have achieved different levels of success in China (Guo & Gallo, 2017; Woetzel *et al*, 2015). Strict government censorship and control and cultural differences between China and the West are often cited as the main reasons for their failure. However, similar conditions existed in countries like Indonesia or Saudi Arabia, which did not prevent WIFs such as Google from dominating over 90% of their search market.

This paper uses phenomenon based research (PBR) to explore the systematic failure of WIFs in China (van de Ven, 2016; Schwarz & Stensaker, 2016; Corley & Gioia, 2011). Empirical data was collected via two rounds of *elite interviewing* (Dexter, 1970; 2006; Ostrander, 1993), supplemented by secondary data from published news, reports, and commentaries. The interviews were conducted over two phases with two different groups of elites in order to compare and integrate the *inside view* and *outside view* on the phenomenon (Morris, *et al*, 1999; Mauboussin, 2009; Headland, Pike & Harris, 1990; Pike, 1954; Harris, 1964). The first phase involved semi-structured interviews with 40 current and former senior executives from six WIFs in China and six of their Chinese competitors. They were aimed at the *inside view* of the phenomenon from the *emic* perspective of senior executives from these firms. The second phase involved unstructured, informal interviews during 37 social gatherings with 185 business,

¹ This paper focuses on *western internet firms* (WIFs), also known as *digital firms*, which from inception focus on digital services enabled by the Internet and related technologies including mobile. These firms were born digital, particularly the so-called dot.com and e-Commerce firms, such as search engines, online content providers and retail platforms. Typical examples include Google, eBay and Amazon. It does not include traditional IT firms, such as Microsoft, Intel or IBM, which rely on sales of hardware and software as their main sources of revenue.

governmental and professional elites, all with extensive knowledge of China. They were aimed at the *outside view* from the *etic* perspective of observers with diverse social and professional backgrounds. By comparing and integrating the inside and outside views, this paper goes beyond existing international business theory - the OLI (Ownership-Location-Internalisation) eclectic paradigm (Dunning, 1977; Narula, 2006), and speculative reasons highlighted by past research (e.g. Wang & Ren, 2012), to explain why all WIFs have failed in China.

This research found that the reasons for the systematic failure of WIFs in China are complex. WIFs brought few genuine, sustainable competitive advantages while comprehensively underperformed their Chinese competitors in nearly every aspect. The prevailing narrative emerging from the inside view is the lack of strategic determination and patience by WIFs in China, but the outside view emphasised the failure by WIFs to acclimatise to China's business environment as the most crucial factor for their failure.

More specifically, the inside view identified seven key themes, including poor understanding of the Chinese market; failure to manage China's regulatory environment, infrastructure and government relation; imposing global business models in China; failure to cope with extreme competition; problems with business partners and local acquisitions; imposing global technological platform in China; and centralised organisational structures and slow decision making. While these factors undoubtedly contributed to the failure of WIFs in China, the generic nature of these factors suggests that the insiders perhaps have focused mainly on the familiar reasons that most foreign firms from any sectors would give for their failure in China.

The outside view identified six themes, including the large number of local competitors; the extreme aggression and strong determination by local competitors; fundamental differences between internet services and other industries; the failure by WIFs to develop and communicate

strategies effectively; ineffective innovation strategy; and failure to be embedded in China.

Interestingly, the outside view not only confirmed some familiar themes identified by the inside view, but also identified three new themes; and the inside view and outside view have converged in the aggregate dimensions around business environment, strategy and execution.

In the next section, the phenomenon is illustrated. Then the research design is discussed, followed by the main findings from the semi-structured interviews with senior executives from six WIFs and their Chinese competitors; and the insights emerging from the unstructured interviews with 185 business, political and professional elites from diverse backgrounds. The prevailing narratives for the systematic failure of WIFs in China and their theoretical and managerial implications are discussed; and new directions for future research are highlighted.

THE PHENOMENON

So far, all WIFs, including digital heavy weights such as Google, eBay and Amazon, have failed operationally in China. Yahoo was the first WIF to enter China in 1998. Despite its early successes, its market share declined rapidly due to strong competition from Chinese competitors, Sohu, Sina and Netease. Yahoo China handed over control to Alibaba in 2005, but the decline continued and it was eventually shut down in September 2013.²

Yahoo was not an isolated case, and similar failures were observed in every major WIF in China. eBay entered China in 2002, but despite its early dominance, its market share declined rapidly from over 80% to a mere 6.2% by the time of its exit in 2006, due to strong competition from Alibaba's Taobao. Google entered China in 2006, but its market share in China only peaked at 33%, declining to 19.3% against Baidu's 63% by the time of its exit in 2010. Amazon

² Yahoo failed operationally in China despite the significant financial return from its investment in Alibaba. Yahoo handed over its operation and invested \$1bn to take a 40% stake in Alibaba in 2005. It earned \$9.4 billion from Alibaba's IPO in 2014, and still holds 383 million (15%) of Alibaba shares (held in Alibaba).

and Groupon are still operational in China, but both are marginal players with single digit market shares. Compared with the success achieved by western firms from other sectors in China, we have never witnessed such systematic failure before. Neither have WIFs failed so systematically in any other international market around the world.

Uber's surrender to DiDi Chuxing in 2016 was particularly puzzling. It set up a highly autonomous Chinese subsidiary; partnered with China's largest search engine Baidu; committed significant capital and paid out \$2billion in subsidies to win market share; and offered services tailored for the Chinese market. Uber founder and then global CEO, Travis Kalanick, spent over 20% of his time in China. It was hard to pinpoint anything Uber did wrong but it still failed.³

The systematic failure of WIFs in China is in stark contrast to the success by western firms in other sectors. In sectors where scale economies are critical, such as car manufacturing, Volkswagen was the first western firm to set up a joint venture in 1985. By 1995 it dominated over 70% of Chinese car market (Li & Li, 1999). Although its market share declined to under 15% it sold over 3 million cars in China in 2016, nearly one third of its global sales of 10.3 million.⁴ In 2016, foreign car brands accounted for nearly 60% of the market share in China, compared to 40% by domestic brands.⁵ In the luxury car segment, Audi, BMW and Mercedes control over 80% of the Chinese market. In sectors where culture plays a key role, such as beer, coffee shops, fast food and the film industry, western firms have also achieved different levels of success in China. Interestingly, mass-market western brands often enter China by positioning themselves as high-end, or at least, prestige names. So far, this strategy has worked well. Starbucks has opened over 3000 coffee shops in 130 cities in China. Its outlets are seen as an upmarket destination,

³ Uber spent \$2bn to win 8% market share in China. When it was taken over by Didi Chuxing in 2016, Uber took a 20% stake (worth \$7bn) in the combined company. Despite the lucrative return, Uber failed operationally in China.

⁴ Volkswagen. <http://carsalesbase.com/china-car-sales-data/volkswagen/>

⁵ China car sales analysis 2016 <http://carsalesbase.com/china-car-sales-analysis-2016/>

charging more for a coffee than in the US.⁶ KFC, McDonald's and Subway are all amongst the top 10 fast food chains in China. AB InBev, the beer conglomerate, increased its market share from 11% in 2002 to 15.7% in 2015.⁷ In the first half of 2017, six of the top ten films in China were from Hollywood, all debuted bigger and generated more revenue in China than in North America.⁸ Despite growing competition from Chinese competitors, western firms from other sectors have managed to succeed in China. So why have all WIFs failed in China?

THE RESEARCH DESIGN

Whilst the failure of WIFs in China is subject to much speculation and debate, systematic studies are rare. Commonly cited reasons include strict government censorship and control, poor understanding of Chinese culture and market, and insufficient local autonomy (e.g. Wang & Ren, 2012; Zeng & Glaister, 2016, Woetzel *et al*, 2017). However, these factors did not prevent WIFs succeeding in other heavily regulated and culturally different markets in Asia, the Middle East or Africa; or stop western firms from other sectors succeeding in China (Park & Vanhonacker, 2007; Li & Li, 1999). The internet market is a culture market with strong network effect. Although countries such as Saudi Arabia and Thailand are culturally different, they are perhaps too small to sustain their own native internet firms. However, Google's success in India (94.53%), Brazil (95.07%), Japan (65.43%) and Russia (42.9%), compared to 1.55% in China in 2017, suggests that while these factors have played a role, they could not explain why all WIFs have failed.

Phenomenon Based Research (PBR) through Elite Interviewing

⁶ Starbucks makes super-sized China bet as it looks beyond US. *The Financial Times*, <https://goo.gl/7RL8x8>

⁷ These are China's biggest beer brands. <http://fortune.com/2017/03/16/china-biggest-beer-brands/>

⁸ China box office mid-year report: Transparency concerns, franchise fatigue and the biggest film ever. <https://www.screendaily.com/features/china-box-office-2017-mid-year-report-/5120767.article>

This paper uses PBR to examine the systematic failure of WIFs in China (Schwarz & Stensaker, 2016; van de Ven, 2016). Different from theory based research (TBR), PBR focuses on capturing, documenting, and conceptualising an observed phenomenon in order to facilitate knowledge creation and advancement (Schwarz & Stensaker, 2014; van de Ven, 2016). Krogh, Rossi-Lamastra & Haefliger (2012) define a phenomenon as regularities that are unexpected, challenge existing theory and are relevant to scientific discourse. It tackles problems that are relevant to management practice but fall outside the scope of available theories. Thus, the aim of PBR is to capture, describe, document and conceptualise a phenomenon so that appropriate theorising and the development of research designs can proceed. Although mainstream management literature is dominated by TBR (van de Ven, 2016; Corley & Gioia, 2011), too strong a focus on theory can '*prevent the reporting of rich details about interesting phenomena for which no theory yet exists*' (Hambrick, 2007:1346).

Initially, the OLI eclectic paradigm from existing international business theory (Dunning, 1977, 1980, 1995, 2001; Cantwell *et al*, 2010; Narula, 2006; Collinson & Rugman, 2007) was used to identify the reasons for the failure of WIFs in China through inductive case studies. However, it soon became apparent after the first few interviews that this approach would not work. While each case study can reveal explicit reasons for its failure, the OLI eclectic paradigm could not convincingly explain why *all* WIFs have failed. The perceived competitive advantages for WIFs linked to OLI are not fundamentally different from western firms from other sectors in China. Yet only WIFs failed while western firms from most other sectors succeeded.

Data collection was via '*elite interviewing*' (Dexter, 1970; 2006; Ostrander, 1993; Parry, 1998; McDowell, 1998; Harvey, 2010; Berry, 2002), also referred to as '*expert interviewing*' (Dogner, Littig & Menz, 2009), although the former emphasises the power and influence while

the latter stresses the knowledge and expertise of the interviewees. This method has been widely used in social sciences to understand the perspectives of leaders in business, government and society (Dexter, 1970; 2006; Dogner, Littig & Menz, 2009; Harvey, 2010). In this paper, elites are defined broadly, with both power and knowledge emphasised, including ultra elites who hold significant power and influence over people and organisations (Zuckerman, 1972; Stephens, 2007); professional elites who possess substantial knowledge and expertise (McDowell, 1998); leaders of organisations and institutions; and people with important social networks, social capital and strategic positions within social structures (Conti & O'Neil, 2007; Burt, 1992; Parry, 1998). The main strength of elite interviewing is the stress it places on the interviewee's definition of the situation, and encourages them to structure the account of the situation and focus on what they regard as relevant. It is particularly effective in identifying factors outside the boundary of existing theories, or offering alternative views on known factors.

The First Phase: Semi-Structured Interviews with Senior Executives from Internet Firms

The first phase comprises semi-structured interviews with 40 senior executives from six WIFs in China, namely Yahoo, eBay, Google, Amazon, Groupon and Uber, and six Chinese internet firms (CIFs) that are deemed their direct competitors, namely, Sohu, Taobao, Baidu, JD.com, Meituan and Didi Chuxing (Table 1). These executives were selected to cover different types of internet firms, but it was partly dictated by access, mostly through introductions by mutual friends (Chua, Morris & Ingram, 2009). As Google, eBay and Yahoo no longer had subsidiaries in China, former senior executives were interviewed. All 40 interviewees were Directors and Senior Managers, usually one level subordinate to the CEO. Most interviews were conducted between April 2012 and May 2013, with Uber and Didi Chuxing in September 2016.

 Insert Table 1 about here

Each interview began with a brief explanation of the purpose of the research followed by questions, typically lasting 90 to 120 minutes. A semi-structured protocol was adopted, and participants were encouraged to provide examples and context (Lee, 1999). Interviews were not recorded on the advice of some interviewees during the initial stages, due to the sensitive nature of some questions, but written notes were taken and were written up soon afterwards (Barkema *et al*, 2015). Secondary data was collected from published news and reports (Eisendardt, 1989), and some background papers and reports that were not publicly available were also obtained from some firms to validate the chronology of events and provide written accounts of key developments. A follow up ‘content-checking’ discussion was conducted with at least one interviewee from each firm (Miles & Huberman, 1984). The interviews focused on two questions: Why did WIFs fail in China? How did their Chinese competitors defeat them? These interviews offered the inside view by senior executives from these firms (Morris, *et al*, 1999).

The Second Phase: Unstructured Elite Interviewing in Social Settings

Over dinner, a successful entrepreneur in China asked: ‘*Do you really think those senior executives would tell you how they messed up in China?*’ This concern was echoed by everyone at the dinner. The Chinese saying ‘*Pang guan zhe qing* (旁观者清)’ was offered as a solution, meaning ‘*spectators can see the situation more clearly than those directly involved*’.

In anthropology and linguistics, and social sciences more broadly, there are two long-standing approaches to understanding the role of culture: *emic*, the *inside* view from the perspective of the subject within the social group; and *etic*, the *outside* view from the perspective of the observer (Pike, 1954; Harris, 1964, Headland, Pike & Harris, 1990). The *emic* and *etic*

perspectives are sometimes seen as incommensurable paradigms, and some scholars prefer one over the other. For example, Kahneman (2011) argued that the outside view is more accurate than inside view in forecasting. However, most scholars regard these two approaches as complementary and argue for a balanced or combined strategy (Headland, Pike & Harris, 1990; Mauboussin 2009). In management research, Morris, *et al* (1999) identified the advantages to combine inside and outside views and examined different forms of synergy between emic and etic approaches in the domain of culture and justice judgement. This research will give equal treatment to inside and outside views by comparing and integrating the emic and etic insights.

To identify the outside view from the etic perspective, 185 business, political and professional elites from diverse backgrounds were interviewed in the second phase, all with deep knowledge of China (Hout & Michael, 2014). Different from the first phase, a more informal, unstructured approach was adopted. Formal interviews are often ineffective in high context cultures like China or Japan (Barkema *et al*, 2015; Cole, 2015). Many things are left unsaid; and serious business is often conducted in social settings. The aim is twofold: 1) to identify new factors beyond those from the first phase; and 2) to re-interpret the insights from the first phase.

Insert Table 2 about here

A total of 37 informal meetings were organised during four separate trips to China in August 2014; June 2015; April 2016; and October 2016 (Table 2). Each trip lasted two weeks. The 185 interviewees include senior business leaders and entrepreneurs from different sectors; business consultants and business school professors with extensive knowledge of western and Chinese internet firms; senior experts from leading think-tanks; senior partners from venture capital and private equity firms; private investors; leaders of business associations; government officials from municipal authorities and the central government; and business and technology

correspondents for national TVs and newspapers.⁹ Most meetings took place during social gatherings. New acquaintances were always introduced by mutual friends through social connections (*Guanxi*) (Chua, Morris & Ingram, 2009; Li & Li, 1999). During those meetings, I would start a casual conversation about the phenomenon, and then invite people to give their views. Findings from the first phase were used to solicit new interpretations. The conversations were not recorded for obvious reasons, but notes were taken immediately afterwards. To protect the identities of the interviewees, their names and positions are kept anonymous.

The primary data is supplemented by secondary data which is summarised in Table 3.

Insert Table 3 about here

Data Analysis

This research is qualitative. Despite the large number of people interviewed, statistical analysis or text mining using software would be inappropriate. The focus of the research is to understand the views of senior executives from WIFs and their Chinese competitors, and a large number of business, political, and professional elites with deep knowledge of China, so a strong element of interpretation and judgement is involved (Barkema *et al*, 2015). Most interviews were conducted in a mixture of Chinese and English and translated into English, so it is important to interpret the data beyond the literal meaning of the words, and to ‘read between the lines’ and make sense of the data in appropriate context (Inhetveen, 2012). Data analysis was guided by naturalistic inquiry using constant comparison techniques (Lincoln & Guba, 1985;

⁹ Although they are not *insiders* from the case studies, and most of them are not from the internet industry, it can be argued that they are insiders to the Chinese economy and culture. Only 12 of the 185 observers are from *outside* China (and even they are acclimatised to China to different extents), and no major differences were observed in their views. Future research should examine the similarities and differences between these two types of outsiders.

Strauss & Gorbin, 1990). To ensure inter-coder reliability and agreement, the unit of analysis is standardised as ‘key factors for the failure of WIFs in China’ (Campbell *et al*, 2013).

Data coding followed a three step process (Becker, 1970; Glaser, 2004; Locke, 2001; Miles & Huberman, 1994). First, two researchers, both bilinguals of Chinese and English, independently coded all the interview notes for Yahoo and its competitor Sohu, under the guidance of the project leader. Each researcher systematically identified the first order categories, and typical examples and quotations for each category. The coding is then compared, and inconsistencies discussed and resolved by referring to the interview notes. By standardising the unit of text for coding (Campbell *et al*, 2013), a high level of inter-coder agreement was achieved. Then the interview notes for Google and Baidu were independently coded by these two researchers, and inconsistencies were discussed and resolved. Following this, each researcher was assigned half of the remaining interview notes. New categories were added to the master list until theoretical saturation was reached (Glaser, 2004). To ensure accuracy, all new categories were verified with the researchers by the project leader. In the second step, the first-order categories are consolidated into second-order themes. In the third step, the themes are further merged into aggregate dimensions (Table 4 & 5).

Insert Table 4 & 5 about here

A similar coding procedure was followed for the second phase interviews. First, an initial sample of five interviews was coded independently by two researchers and then the results were compared, followed by another five interviews. The unitisation of the text for coding helped ensure a high level of inter-coder agreement (Campbell *et al*, 2013). The remaining interview notes were divided between the two researchers and all coding was verified by the project leader

with the researchers. The first order categories were then consolidated into second order themes, and then further into aggregate dimensions (Table 6 & 7).

Insert Table 6 & 7 about here

THE INSIDE VIEW: MAIN FINDINGS FROM THE EMIC PERSPECTIVE

This section discusses the inside view on the failure of WIFs in China from the emic perspective of 40 senior executives from six WIFs in China and six of their Chinese competitors (Table 1). The interview notes, totalling over 150 typed pages of A4, were coded into first order categories, second order themes and aggregated dimensions (Table 4 & 5). Some of these factors affect all western firms in China. However, in the ‘winner takes most’ internet market where only two or three key players can usually survive in each market niche, these factors affect internet firms more than firms from other sectors; and the cumulative effect can be ‘*the final straw that breaks the camel’s back*’ for WIFs in China.

Imposing Global Business Models in China

The rigid adherence to their global business models contributed to the failure of some WIFs in China (Table 4 & 5). eBay entered China in 2002, and it acquired EachNet for \$180million in 2003, a local firm with 80% of the Chinese C2C (consumer to consumer) market at the time. The combined group had over 2 million users and 85% of the Chinese market. However, instead of building on EachNet’s proven business model in China, eBay imposed its own global business model - and technological platform - onto the combined group.

This decision reflects eBay’s lack of deep understanding of Chinese consumer culture. Different from eBay, its main competitor Taobao adopted the free model and did not charge for listings; and its technological platform was specifically designed to facilitate trust building

between sellers and buyers. Trust is particularly difficult to build in China because of the lack of legal protections and effective ways to resolve disputes. While eBay relied on ratings and feedbacks from previous buyers to help future buyers determine which seller to do business with, Taobao set up online forums to encourage buyers and sellers to communicate directly, with instant messaging services embedded in its platform. This helped Taobao to cultivate a sense of community and alleviate buyer concerns, which fits well with the retail culture in China where buyers and sellers often haggled aggressively over price. At the time, China had 300 million mobile phone users and 90 million internet users. Taobao offered instant messaging and voicemail to mobile phones. With its free business model, Taobao was unconcerned about offline transactions to avoid fees. In fact, Taobao actively encouraged buyers and sellers to communicate with mobile phones, instant messaging and emails outside its platform.

Similarly, Google's global business model was not competitive in China. When it entered China in 2005, Google faced fierce competition from Baidu and Sougo (a subsidiary of Sohu). Google's high profile exit from mainland China in 2010 was widely attributed to its dispute with Chinese Government over censorship and alleged cyber-attacks. However, interviews with former Google executives suggested that government censorship and interference, although important, was not seen as the main reason for its failure. Google's market share in China only peaked at 33%, declined to 19.3% by the time of its exit, compared to Baidu's 63%. This was in sharp contrast to Google's overwhelming dominance in most other international markets it entered. Google's business model focused too narrowly on search, generating revenue from advertising only. It also insisted on payment by credit cards by advertisers. In contrast, Baidu was more flexible by allowing different payment methods, offering a range of paid services to generate additional revenues. In addition, Baidu developed user communities, including online

bulletin boards named ‘*Tie Ba*’; ‘*Zhidao*’, similar to Yahoo Answers; and ‘*Baike*’, a Wikipedia style encyclopedia. These services helped sustain its market share. Eventually, Google exited China after it was already defeated by Baidu. The business models of Amazon and Groupon also failed to compete with their Chinese rivals.

Although business models affect every business, they are particularly crucial for internet firms (Massa, Tucci & Afuah, 2017). Unlike other industries, the relationship between internet firms and their users are more complex and less transactional. When an internet firm underperforms in its business model in a ‘winner takes most’ market, the impact is often fatal.

Failing to Cope with Extreme Competition in China’s Internet Market

All WIFs are used to strong competition, but some of them were overwhelmed by the extreme competitive intensity in China (Table 4 & 5). Groupon entered China in early 2011 by investing US\$8.4 million for a 40% stake in Gaopeng, launched in partnership with Chinese internet giant Tencent. It aimed to become “*China’s largest shopping site*”. Gaopeng quickly expanded to over 80 offices with 3,000 employees, but by August 2011 it already started scaling back, closing 13 offices and firing 400 people. With over 5,000 group buying sites in China at the time, Groupon seriously underestimated competition. By 2013, Groupon only held a minority share in Gaopeng with a mere 3% market share, lagging far behind market leaders such as Meituan, Lashou and many others.

Similarly, Uber did everything possible to compete with Didi, and China briefly became Uber’s largest market, accounting for over a third of its business in terms of weekly trips. However, Uber lost over \$1bn annually in subsidies. Although it grew from 10 cities to 60 in 12 months, its market share only reached 8% compared to Didi’s 80% and over 400 cities. Uber eventually admitted defeat and surrendered its operations to DiDi in August 2016. Unlike other

WIFs whose failures in China can be attributed to specific mistakes, Uber avoided most mistakes but still failed. For the first time, Uber met a genuine competitor in DiDi. Uber's approach was considered aggressive by the Silicon Valley standard, but it fell short by the Chinese standard. In all other markets, Uber typically retained 20-25% of the passenger fare; but in China, Uber paid drivers a multiple of the passenger fare and lost money on every ride. One factor singled out during the interviews is that Uber had other markets to consider but DiDi only had China at the time. The famous battle in ancient China, *Beishui Yizhan* (背水一战)¹⁰, was used to illustrate this. While Uber can be successful without China, Didi does not have the luxury. For Didi, it was to win or die.

The extreme competition in China also overwhelmed Amazon. Decision making by the head office was often too slow; and its senior management in China lacked autonomy to compete effectively with local competitors. Although competition is strong in every industry in China, the low entry barriers in internet services led to a very large number of competitors in China's internet market. In fact, more CIFs have failed in China than the number of WIFs, but the very large base number ensured at least some of CIFs are likely to survive. This condition is materially different from other industries in China and other internet markets around the world.

Problems with Chinese Business Partners and Local Acquisitions

Most WIFs experienced problems with business partners and local acquisitions in China (Table 4 & 5). Yahoo entered China in 1999 through a strategic partnership with Beijing Founder Ltd. When it failed to compete with Sohu, Sina and Netease, it acquired 3721.com for

¹⁰ During the Qin Dynasty (221-206BC), General Xiang Yu led a rebellion. After crossing the rampant *Zhang* River, Xiang Yu ordered his men to sink all their boats and break their cooking pots. He issued each soldier three days' rations and warned them that there was no retreat. To survive, the only way was to charge forward and defeat the much stronger Qin Army waiting ahead. After nine fierce battles, the powerful Qin army was defeated. This is known as *Beishu Yizhan*, fighting with one's back to the water, to win or die.

\$120 million in 2003, a company that was synonymous with *search* in China at the time. Yahoo failed to build on 3721.com due to conflicts with its founder and was soon surpassed by Baidu.

eBay entered China by acquiring EachNet for \$180million in 2003, a local firm with 80% of China's C2C market. However, the dominance of eBay EachNet alarmed Alibaba, at the time a B2B marketplace for SMEs conducting business online. Alibaba recognised that there was no clear distinction between small businesses and individual consumers; and as a defensive strategy, it launched a C2C portal named Taobao in 2004 for \$12million. Unlike eBay, Taobao did not charge for listings, which enabled it to eat away eBay EachNet's market shares and eventually overtake it by 2006, forcing eBay to exit the Chinese market.

Amazon entered China in 2004 through the acquisition of Joyo.com for \$75m, one of two dominant online retailers specialising in books, CD/DVDs and software downloading. However, it struggled to compete with DangDang, the main rival of Joyo.com at the time, which Amazon failed to take over with a reported \$150m offer. When Amazon moved into selling other goods, it earned a reputation as being more expensive than other online platforms. Its market share in China was only 1.1%, dwarfed by JD.com (22.8%) and Alibaba's Tmall (58.6%). In 2015, it even opened an online store on Tmall, but its decline continued. Its cloud service, AWS, also fell behind the cloud services offered by Alibaba, Tencent, Baidu, Huawei and many others.

Groupon assumed it could simply acquire the largest group buying site in China, but its offers to Lashou were repeatedly rejected. Its partnership with Tencent was hailed as a major competitive advantage, but in hindsight, it was a mismatch. For Tencent, group buying was not a priority; and it also operated its own group buying business, QQ Group Buy, which is bigger than Gaopeng. Groupon failed to capitalise on Tencent's massive user base, government connections and management talents, which contributed to its downfall.

Although partnership issues are important for all foreign firms in China, Yahoo, eBay, Amazon and Groupon cited it explicitly as one of the main reasons for their failure in China.

Imposing Global Technological Platforms in China

Most WIFs expanded into foreign markets by using the same technological platforms that brought them success in their home markets. However, this approach left opportunities for Chinese competitors to launch platforms specially designed for China (Table 4 & 5). For example, Yahoo insisted on adhering to its global technological platform in China despite the significant market differences between China and the US, which played a key part in its failure.

Google's search engine was originally developed for English search, which could not match the purpose-built Chinese search engines by Baidu and 3721.com. There was a strong perception by users that Google was foreign while Baidu was made for China; and the search results from Baidu were often more relevant. Although Google addressed this by hiring over 100 engineers to add new codes for Chinese language search, the effort was constrained by its global technological platform. This contributed to Google's failure in China (Table 5).

Unlike many other industries, cultural sensitivity is strategically crucial for internet services. Foreign platforms adapted for China leave opportunities open for local firms to launch incrementally better platforms to gain market share and eventually win the competition.

Centralised Organisational Structures and Slow Decision Making

A perceived competitive advantage for WIFs in China is the resources and support from their global parents, but the centralised organisational structures, slow decision making by the head offices and the lack of local autonomy contributed to their failure (Table 4 & 5). For example, when Yahoo China came up with new ideas, approval from the US head office was

often required. The process could take weeks, so even when permission was eventually given, it was often too late. In contrast, CIFs often made and implemented decisions on the same day.

Google's former China head blame corporate bureaucracy and lack of local autonomy as the main reasons for its failure, a sentiment echoed by the people we interviewed. Similarly, in Amazon and eBay, the lack of local autonomy contributed to their rapid downfall (Table 5).

Groupon used German speaking expatriates to head up its China operation, some of them relied on interpreters to communicate with employees, clients and partners. Some expatriates used management tactics that were ineffective in China, which contributed to its failure.

Centralised organisational structures and slow decision making affect most western firms in China, but given how rapidly the internet market is changing, they can significantly impede WIFs' ability to compete effectively which contributed to their failure.

Poor Understanding of the Chinese Market

Failure to understand the Chinese market has been cited for the failure of all WIFs in China (Table 4 & 5). For example, soon after Taobao was launched, eBay signed exclusive advertising rights with major portals including Sina, Sohu, and Netease, with implicit intention to block advertising from Taobao. This forced Taobao to advertise on TV instead, which ironically proved far more effective than other channels to reach small business owners and individual customers. To facilitate payment, Alibaba launched Alipay, which provided escrow service and insurance for buyers and sellers. Taobao also encouraged 'cash on delivery' by signing formal agreements with logistical providers, which became a major attraction for buyers and sellers.

Groupon successfully built its initial customer base in the US and Europe by targeting young, educated women who had the time and money to try new things, but this strategy did not work in China. It targeted top restaurants in different food categories in China but *'these*

categories were largely irrelevant in China’ according to a former executive. The biggest consumer base are “*young white collar office workers in their 20s-30s who love to eat lunch in packs in big shopping malls, but you aren’t going to reach those vendors from a call centre!*”

When negotiating with vendors, Groupon insisted on 50-50 profit split, but the typical profit split in China was 10-90 to the vendor due to strong competition. Groupon was often told to ‘*go away and don’t come back until you have something realistic to offer*’.

Groupon adopted a strategy in Europe by using high salaries to poach its competitors’ top employees. The use of this approach in China resulted in some Chinese competitors joining forces to issue a formal statement that any employee who left to work for Groupon would never be hired by any firm in the alliance. Groupon insisted on using mass email marketing despite being warned that Chinese people seldom read such emails. Its reliance on foreign expatriates resulted in high employee turnover.

This problem affects all western firms, but for internet firms the market segments in China are so different that what worked in the West often did not work in China. This gives Chinese competitors a natural competitive edge, which translated into market shares.

Failing to Manage Regulatory Environment, Government Relations and Infrastructure

Some WIFs failed to adapt their business models, technological platforms and organisational structures for China’s infrastructure (e.g. telecom, transport) and supporting services (e.g. banking, logistics), which resulted in major operational challenges. However, while government control and censorship and lack of adequate IP protection in China have been widely cited as a main reason for the failure of WIFs in China (e.g. Wang & Ren, 2012; Zeng & Glaister, 2016), this view was not supported by the people we interviewed. For example, former

executives from Yahoo and Google explicitly argued that these factors were only secondary, and instead attributed their failures in China to other major factors (Table 4 & 5).

While adapting for China's infrastructure is operationally important for all foreign firms, managing the regulatory environment and government relations is strategically crucial for WIFs. All firms, foreign or domestic, need to abide by local laws and regulations, but this is particularly crucial for internet services. To different extents, the internet is under government control and surveillance everywhere, including the USA and Europe. In China, some internet services are viewed as ideologically sensitive, and the laws and regulations governing their use are often more strict than - or simply different - from the West. When a WIF refuses to cooperate with relevant authorities or abide by local laws and regulations, their services could be blocked or banned. Even a temporary service outage could hand significant advantages to competitors in the extremely competitive Chinese internet market, as some users might never come back.

THE OUTSIDE VIEW - FINDINGS FROM THE ETIC PERSPECTIVE

The second phase interviews use the etic perspective to identify key factors from the outside view. The interview notes, totalling over 200 typed pages of A4, are coded and summarised in Table 6 & 7. The outside view not only confirmed some factors from the inside view, but also identified three new factors that were missing from the inside view.

Losing by Numbers: One in a Hundred against One in a Million

Although the inside viewed identified extreme competition in China as a key factor, the outside view highlighted the very large number of competitors explicitly for the phenomenon. Most WIFs entered China to dominate the Chinese market. However, competition is relative. What is considered aggressive by western standard is often seen as mild in China (Table 6 & 7). Due to the sheer number of internet firms and the huge size of the Chinese market, competition is

often extremely fierce (Woetzel *et al*, 2017). To survive, all CIFs have to compete with a far greater pool of local competitors than any WIFs have ever encountered. This is known as the ‘huge crowd strategy’ (人海战术 – *Ren hai zhan shu*), which gives CIFs an implicit advantage.

The Chinese sayings of ‘*Bai li tiao yi*’ (百里挑一, one in a hundred) versus ‘*Wan li tiao yi*’ (万里挑一, one in ten thousands) were often used to illustrate this point. If western internet behemoths such as Amazon and Google succeeded in the US by beating hundreds of competitors, then Alibaba and Baidu would have to beat tens of thousands of competitors in China to get where they are. The relatively weak and unpredictable regulatory environment also made competition in China extremely fierce and ‘no holds barred’. One entrepreneur described the competition as akin to a fight between a boxer and a street fighter: ‘*while the boxer is still waiting for the referee to blow the whistle, the street fighter already kicked him in the head and the fight is over.*’ Furthermore, even if one CIF is defeated or acquired by WIFs, there are a relentless army of other CIFs waiting in the wings, often with improved business models and stronger determination. The odds for success are stacked against WIFs in China.

In addition, as the largest internet market in the world by user numbers, China can sustain more service providers than any other markets; and it is far more difficult for any internet firm to dominate and then maintain the dominance in China than in any other countries. For example, when Google entered countries such as the Netherland, the Google search engine adapted from English to Dutch is probably ‘good enough’ for the majority of the Dutch speaking population. With a population of 17 million, the Dutch market is probably too small for a new search engine to be financially viable even if it is incrementally better than Google. However, with over 750 million internet users in China and growing, a mere 1% market share would translate into 7.5million users, so it is much easier for an incrementally better search engine to achieve

financial viability in China than in the Netherland. The fact that tens of millions of new internet users enter the market each year also makes the market more attractive to new service providers. This explains why some WIFs (e.g. eBay, Amazon) dominated China briefly but then failed to lock out competitors and maintain their dominance.

Although CIFs have imitated WIFs during the early days, many CIFs have since established themselves as distinctly Chinese, by understanding local users, building relations, cultivating business ecosystems, and improving technologies, products and business models. Taobao is not eBay's equivalent in China, nor is JD.com or Tmall China's Amazon. These CIFs have defeated numerous local competitors to get to the top, and they are very hard to beat. Furthermore, all WIFs have significant business interests in other markets and can continue to be successful without China, but most CIFs did not have that luxury. This gave CIFs the extra motivation and determination needed to do anything necessary to survive in China.

Failure by Strategies: From 'The Art of War' to 'The Thirty Six Stratagems'

The inside view highlighted other strategic mistakes made by WIFs, but this factor was only identified by the outside view. The head of a leading PE firm argued that the failure of WIFs in China went far beyond the specific mistakes they made. CIFs have, explicitly and implicitly, drawn inspirations from ancient Chinese military strategies and tactics to change the nature of competition (Table 6 & 7). Such strategies are deeply ingrained in Chinese history and culture and widely used in everyday language, which enables more effective strategy making and communication by CIFs. This point was echoed by many others, including a multi-billion dollar business founder and a successful serial tech entrepreneur. *The Art of War* is a Chinese military strategy book by *Sun Tsu* dating from the 5th century BC. *The Thirty Six Stratagems*, a collection of warfare wisdom derived over many centuries of inter-state conflict in China, was

also widely used. Another source of inspiration is the military strategies of the late Chairman Mao during the war with Japan and the civil war with the Nationalist army in 1930s and 1940s. These strategies allowed CIFs to develop and communicate their business strategies effectively, with great cumulative effects. Many examples were used to illustrate this point.

When eBay acquired EachNet in China in 2003 and dominated 85% of China's C2C market, Jack Ma's Taobao was in no position to launch a head on assault. Since *'good fighters first put themselves beyond the possibility of defeat, and then wait for an opportunity to defeat the enemy'* (Sun Tsu), Ma literally adopted Mao's strategy that helped the weaker Communist army defeating the stronger Nationalist army to guide the communication of his strategic intent: *'first encircle cities from rural areas, and eventually take control of the cities and the whole country'*. This strategy is widely understood by Chinese people. By focusing on users at the low end and using the free business model to disrupt eBay, Taobao pushed eBay out of China.

Whoever Blinks First Loses: Beaten By More Determined Competitors

This factor was emphasised by both the inside view and outside view. Most WIFs made mistakes in China, but in the case of Uber, it was not simply a matter of what it did wrong, but what Didi Chuxing did better (Table 6 & 7). When Uber entered China, Didi already had a head start. Despite the perceived competitive advantages for Uber, Didi was simply more determined, with more cash reserves than Uber for a prolonged price war. In many ways, the competition between them was reminiscent of the reckless land grabbing during the early dot.com era, but the difference is that both firms have the resources and long term visions to capture market shares first before making profits. In the end, Uber blinked first and lost.

All WIFs we studied acquired, or made attempts to acquire the market leaders in China. However, in subsequent competitions, CIFs simply showed stronger determination to survive at

any costs. Most CIFs initially imitated western services and technologies, but thing quickly progressed beyond copying.¹¹ Tencent and Alibaba are constantly reinventing their services, technologies, business models and ecosystems, and investing heavily in innovations. Tencent is building a business ecosystem on top of a social network; and about half of its revenues come from its games business.¹² Alibaba has built a business ecosystem and is creating a social platform to sustain it. It acquired physical stores long before Amazon acquired Whole Food Market.¹³ Services from CIFs often have more features tailor-made for Chinese users. Their exclusive Chinese focus gave them a competitive edge over their globally oriented competitors.

New Digital Rules of the Game: Differences between Internet and Traditional Businesses

Some fundamental differences between internet and traditional businesses contributed to the failure of WIFs in China, and this factor was only identified by the outside view (Table 6 & 7). Internet services usually have a much shorter lifecycle compared with traditional industries; and WIFs only have 2-3 years rather than decades to fine-tune their business models and educate customers. This limited the buildup of any sustainable advantages by WIFs and gives Chinese internet firms a much better chance to compete with them than in traditional industries. Unlike aerospace or pharmaceuticals, most internet firms do not rely on cutting edge technologies so the entry barriers are relatively low. Car engines are far more difficult to imitate than search engines. The ancillary assets and tacit knowledge embedded in production processes and supply chains in traditional industries also serve as major entry barriers. As a result, WIFs have fewer competitive advantages and face far more competitors than western firms from other sectors.

¹¹ China vs US: who is copying whom? *Financial Times*, 18 September 2017, <https://goo.gl/PvuKYs>

¹² Chinese fantasy role playing game has 50m active players, *Financial Times*, <https://goo.gl/cA4YSY>

¹³ Alibaba taps user data to drive growth spurt. *The Financial Times*, 22 June 2017. <https://goo.gl/aePWmb>

A related area that makes digital businesses unique is the sources of value added. For firms such as Intel, a significant proportion of its value comes from the technologies embedded in the CPU processors, with the rest coming from marketing, distribution, business networks and so on. The advantages embedded in its core products, business processes and brand will ensure its success in China even if it underperforms Chinese competitors in other aspects. In contrast, internet firms have few advanced technologies or ancillary services that would give them sustainable advantages over local competitors. If they underperform in areas such as strategic partnership and customer relations, the value added from their core products or business processes is insufficient to compensate for the shortfalls. Compared with traditional industries, WIFs have few competitive advantages but many disadvantages. This is very different from most other industries where western firms often have clear competitive advantages to build on.¹⁴

Failing to Be Embedded in China

Some aspects of this factor were highlighted by the inside view, and it was also strongly emphasised by the outside view. All WIFs we studied have shown a lack of deep understanding of the Chinese market (Table 6 & 7). They found it difficult to compete with Chinese entrepreneurs in serving the local market. This is not only reflected in understanding users and customers, but also internally within the firms. Senior expatriates parachuted down from the head office often lacked culture sensitivity, damaging relations without realising it. The

¹⁴ Technological advantages by western firms are difficult, but not impossible, to overcome. Chinese firm Huawei managed to overcome technological advantages by western firms to become the world's largest telecom equipment provider. However, its success is not easily replicable. Huawei first set up joint ventures with state owned firms under the Ministry of Post and Telecommunications in China to distribute imported products from Hong Kong, which secured its access to technology, capital and market, 'killing three birds with one stone'. It then used the cash piles and the low cost advantages in China to invest aggressively in R&D and rapidly built up large scale technological capabilities within the firm. The average cost for an engineer in China was US\$25,000 compared to \$120-150,000 in Europe. Chinese engineers on average work 2750 hours compared to 13-1400 hours in Europe. This allows Huawei to employ 13,000 engineers and drastically reduce cost, accelerate product development and increase profitability, and then use generous financial incentives to ensure staff loyalty and dedication. Further, the transition of the telecom market from technology-driven to market-driven in recent years also served to reduce the impact of technological advantages by western firms and help Huawei to succeed both in China and internationally.

recruitment policy of WIFs favours English speaking candidates, which attracts particular types of people and excludes a significant proportion of talented but non-English speaking candidates. Most WIFs in China use English as the official language for internal communications which is ineffective - and indeed, rather silly, when 20-30 Chinese employees communicate in English at meetings in China when just one or two foreign expatriates are present.

One consequence is that most WIFs overlooked the Chinese social structure and focused primarily on the middle class market as they did in the West, thus losing the majority of non-middle class users to Chinese competitors. Unlike developed countries, the middle class represents a relatively small proportion of the Chinese population. Employees in WIFs – usually educated, English speaking, middle class white collar workers in big cities - will struggle to truly understand the needs, life styles and preferences of people from lower social classes in smaller cities and rural areas. CIFs are generally more sensitive to local trends in different areas.

Unlike CIFs, WIFs use emails extensively for internal and external communications, which is cheap and convenient but ineffective. They can supplement, but not replace, phone calls, face to face meetings, and business entertainment in China. Wechat from Tencent is an essential communications tool used by 963 million monthly active users (Q2, 2017). Most Chinese people are using it to share information and manage their business and social relations both within and outside work. However, many foreign executives use WhatsApp rather than Wechat and are therefore left out of important social and business circles and networks in China.

Failing to be embedded in China affects all western firms, but its impact on internet services is crucial, as the competition is fierce, the growth is fast, and the market is culturally sensitive and ‘winner takes most’. It played a key role in the failure of all WIFs in China.

Innovating by Experimenting: Crossing River by Feeling the Stone

This factor was only highlighted by the outside view. Deng Xiaoping famously described China's economic reform as '*crossing the river by feeling the stones on the riverbed*'. This strategy has served China well, resulting in four decades of rapid economic growth, lifting hundreds of millions of Chinese people out of poverty (Steinfeld & Beltoft, 2014; Li & Li, 1999). This mentality is deeply embedded in contemporary Chinese culture. In facing strong competition from WIFs, nearly every CIF followed this approach (Table 6 & 7). Unlike WIFs which have established procedures for developing and implementing innovations, CIFs are often more result-oriented and more prepared to innovate by experimenting. If a new idea works, then scale it up rapidly; if not, move onto other ideas. Chinese consumers are generally more tolerant of such product development processes than in the West, which enable CIFs to test and refine many new ideas very quickly at low cost, with significant cumulative effects.

DISCUSSIONS

Many factors are collectively responsible for the failure of WIFs in China. The inside view from the emic perspective of senior executives of WIFs and their Chinese competitors highlighted the poor understanding of Chinese market, imposing global business models and technological platforms in China, failing to cope with extreme competition, problems with business partners, and lack of local autonomy and slow decision making (Table 4 & 5). The outside view from the etic perspective of observers identified the large number of and the very determined local competitors, the use of strategies deeply rooted in Chinese history and culture, fundamental differences between digital and traditional businesses, failure to be embedded in China, and innovating by experimenting (Table 6 & 7).

Most factors identified by the inside view also apply to western firms from other sectors, but they are explicitly highlighted by senior executives from WIFs and their Chinese competitors

for the phenomenon. The outside view not only confirmed some of these factors, but also highlighted three new factors: using strategies rooted in Chinese history and culture, differences between internet and traditional businesses, and innovating by experimenting. Despite the differences between the inside view and outside view in the first order categories and second order themes, they converged in the aggregate dimensions around 1). poor understanding of the business environment, 2). ineffective strategy making and communication, and 3). under-performing Chinese competitors in operation and execution (Table 4 & 6).

During both phases of the research, people were explicitly asked whether they could single out one reason that led to, or played the most crucial part in, the failure of WIFs in China. Everyone believed that it was not one single factor, or a particular decision or action, but the cumulative effects of multiple factors or actions that led to their failure. However, two distinctive prevailing narratives have emerged from the inside view and outside view.

Lack of Strategic Determination and Patience in China

The prevailing narrative emerging from the inside view centred on the lack of strategic determination and patience by WIFs in China. This factor was also explicitly highlighted by the outside view. When WIFs entered China, most of them have already achieved scale and dominance in their home markets and other important international markets. Their China strategy is only a subset of their global strategy. However, the challenges they encountered in China are far greater than they experienced anywhere else, and few WIFs had the mental preparation, strategic determination and long term patience required to dominate the Chinese market. WIFs have to weigh up the cost and benefit in China with other markets. When the cost in China exceeds expected future returns, admitting defeat is often the best option. In contrast,

CIFs focused almost exclusively on China, and it was a game of survival. This gives CIFs the extra strategic determination and patience needed to survive at any cost.

Most WIFs in China made strategic mistakes, particularly by imposing their global business models and technological platforms in China that are not fully attuned to the local market; and many of them experienced difficulties with local acquisitions and business partners. The market structure and user behaviour in China are very different from the West. There are major disparities in the level of economic development within and between regions in China, such as income levels, infrastructure development and support services (e.g. logistics, banking and payment); and significant cultural differences between urban and rural areas and the large number of Provinces. CIFs have been more effective in developing strategies and operations to cater for such variations, even by building entire new ecosystems, which enabled them to increase market shares and eventually defeat WIFs in China.

Failing to Acclimatise to China's Business Environment

The prevailing narrative emerging from the outside view is that WIFs failed to acclimatise to China's business environment which is materially different from the West. Some aspects of this narrative was also highlighted by the inside view. This was often illustrated by a popular Chinese phrase, '*Bu jie di qi*' (不接地气), meaning WIFs failed to keep their feet firmly on the ground or be deeply embedded in China. The regulatory environment in China is complex, and the policies and regulations are often underdeveloped, inconsistently interpreted and implemented, and change rapidly and erratically. There are strict government censorship and control in some areas, but lack of control in others (e.g. privacy), which creates both operational challenges and new opportunities for radical innovations (e.g. collecting and monetising user data). This calls for significant expertise in understanding and anticipating subtle changes in

policies and regulations; and extensive connections with central and local governments and its complex divisions and departments. CIFs are generally more flexible, and politically and culturally more savvy, in managing government relations and anticipating regulatory and policy changes. It is too simplistic to blame government censorship and control for the failure of WIFs in China, as both CIFs and WIFs need to comply with government rules.

In addition, most CIFs used tried and tested strategies that are deeply ingrained in Chinese history and culture, which gives them a clear edge in strategy making and communication. Their innovation strategies allowed them to try out numerous new products efficiently which translated into market shares. Most WIFs failed to appreciate the differences between internet and traditional businesses, and the challenges involved in dominating the largest internet market in the world, which is culturally, politically and economically different from the West. Even when one CIF is defeated or acquired, WIFs have to face the relentless assaults from other CIFs.

Why Have All WIFs failed in China? The ‘Perfect Storm’

In many ways the internet market is fundamentally different from other industries. WIFs only had a short history to build up any inimitable advantages. The low technological barriers allowed a very large number of CIFs to be set up in China. As a culture market it favours native firms in understanding users and the business environment, and in developing and communicating strategies. The network effect means ‘winner takes most’. When faced with more determined and locally embedded Chinese competitors, who are fully attuned to the Chinese business environment, WIFs have few competitive advantages but many disadvantages. It is the ‘perfect storm’ that led to the systematic failure of all WIFs in China (Table 8).

Insert Table 8 about here

Compared with other industries, WIFs in China encountered levels of competition they never experienced anywhere else. The speed of change and the short life cycle for digital services eroded traditional advantages enjoyed by western firms from other sectors. CIFs built and rapidly expanded their business ecosystems through strategic alliances and diversification, which created new revenue streams and improved resilience. They hired dedicated personnel to build and maintain government relations to ensure deep understanding and early anticipation of changes in policy and regulations which translated into strategic and operational advantages.

Most WIFs failed to delegate sufficient autonomy, made worse by their centralised organisational structures and slow decision making. This led to slow responses to local competition; lack of deep understanding of Chinese market and culture; and limited ability to build partnership and strategic alliances. CIFs enjoyed significant advantages by catering for every imaginable user needs in different parts of China which translated into market shares. Unlike WIFs, most CIFs designed their technological platforms and business models for China. Their services are developed and fine-tuned for Chinese users, based on deep understanding of Chinese culture and continuous user engagements, which cumulated to operational advantages.

WIFs failed to match CIFs in understanding the business environment, and conceded strategic and operational advantages. They lacked strategic determination and patience, and failed to acclimatise to a market that is materially different. Their failure so far is inevitable.

Managerial Implications

This research identified a wide range of factors for the systematic failure of WIFs in China. Some of them are unique to internet firms, but others are generic which affect all western firms. Addressing some or even all of these factors does not guarantee success (e.g. Uber), but failing to address any of them can lead to failure. To succeed in China, WIFs need to bring genuine

technological advantages and be deeply embedded in China with total commitment, exclusive focus and unwavering determination. Their products, platforms and business models need to be purpose built and fine-tuned for China, not adapted from another market, as this leaves opportunities for Chinese competitors to launch incrementally better products and platforms. Strong local autonomy is essential. Remote control from the West will not work.

Interestingly, this research found that government censorship and control is not seen as the primary reason for the failure of WIFs in China (Table 5). Ideologically, some WIFs may not agree with the way the internet is governed or monitored in China. However, respecting and abiding by local laws and regulations is a pre-condition for any firm to operate in any jurisdiction. Seeking to change China through direct confrontation with the Chinese government by one or a group of WIFs, however big or powerful they are, is highly risky. For now at least, WIFs have no choice but to adapt for China - or continue to stay out of the Chinese market.

CONCLUSIONS AND FUTURE RESEARCH

The reasons for the systematic failure of WIFs in China are complex. Existing international business theory, the OLI eclectic paradigm, could not convincingly explain why the perceived competitive advantages for western multinational firms failed to translate into sustainable operational success for WIFs in China. A range of factors have been identified from both the emic perspective of senior executives from WIFs and their Chinese competitors, and the etic perspective of elite observers from diverse social, political and professional backgrounds. WIFs failed to understand and manage the complex business environment, adapt their strategies and business models for the Chinese market, and develop new technologies and services to cater for the needs of Chinese users. They underestimated Chinese competitors and the huge challenges involved in dominating the largest internet market by user numbers. In contrast to

other sectors where western firms maintained multiple advantages in technologies, products and services, strategy and organisation, WIFs had few genuine advantages but many disadvantages.

Similar patterns have been observed in other internet services, cloud services, mobile communications, fintech, and some non-digital sectors (e.g. solar energy, electric cars, and high-speed trains). Further, new battle lines have been drawn between Chinese and western firms in artificial intelligence (AI) and machine learning (ML), driverless cars, and in some industries where western firms traditionally held major technological and other advantages. Some WIFs such as Google are re-entering the Chinese market. As CIFs grow bigger and more confident, they are actively pursuing new opportunities in other markets – from India, South East Asia, Africa to the USA and Europe - so the clashes between CIFs and WIFs are likely to escalate both in China and internationally.

So far, WIFs have underperformed their Chinese competitors in nearly every aspect in China, but their disadvantages are not insurmountable. To succeed in China, WIFs need to bring genuine technological and other advantages in order to overcome, or compensate for, their disadvantages. Future research should further examine the key factors that lead to the systematic failure of WIFs in China, particularly by testing propositions and developing new theoretical frameworks; and identify and validate effective new strategies to compete in China.

Historically, Chinese companies are seen as rapid adopters of innovations generated elsewhere rather than breakthrough inventors themselves, but things are changing rapidly. Today, more goods move through Alibaba's platforms than Amazon's; and Tencent's WeChat is Facebook, FaceTime, WhatsApp, PayPal and LinkedIn all rolled into one. China has a massive lead over the USA and Europe in mobile payment. Many Chinese firms now have a level of self-assurance and success on the world stage that is allowing them to experiment with their own

ways of working. China has highly distinctive cultures and traditions on which its own management theories and practice can be built. It is important for future research to continue to examine this and other emerging phenomena in China, and the lessons from such research may shed light on our understanding of globalisation strategies in rapid-changing industries, with potential implications for general management theories in the digital age.

TABLE 1: INTERVIEWS WITH WESTERN INTERNET FIRMS AND THEIR CHINESE COMPETITORS

Company	Business	Year	Main Features	Current Status	Interviews	Dates
Yahoo	Content provider	1999	Joint venture and acquisition of 3721.com	Taken over by Alibaba in 2005 but took 40% Alibaba shares. Closed down by Alibaba in 2013	4	Apr 2012
Sohu	Content provider	1998	Web portal, advertising, search engine, multiplayer games etc	NASDAQ listed, with over 30% market share in China	3	Apr 2012
eBay	C2C retailer	2003	Acquisition of Eachnet.com	Market share dropped from 85% to under 10% by 2006 and sold to Tom online in 2007	3	Aug 2012
Taobao	C2C retailer	2003	Part of Alibaba Group	Over 80% market share.	3	Aug 2012
Google	Search Engine	2006	Wholly owned subsidiary	Market share peaked at 33% and dropped to 19.3% when it exited the Chinese mainland market in 2006	5	Feb 2013
Baidu	Search engine	2000	Dominant search engine in China	Over 70% of the search market	4	Feb 2013
Amazon	B2C retailer	2004	Acquisition of Joyo.com	Still operational with 0.8% market share in 2016. Opened online store on Alibaba's TMall in 2015.	4	Feb 2013
JD.com	B2C retailer	2004	One of two dominant B2C online retailers (with Alibaba's Tmall).	31.2% of the B2C market in 2016 & growing faster than Tmall (51.3%).	3	Feb 2013
Groupon	Group buy	2011	Joint venture with Tencent and minority ownership of Gaopeng	Less than 3% market share in 2016 through minority shareholding in Gaopeng	5	May 2013
Meituan	Group buy	2010	Merged with Dianping in 2015	The largest group buy site in China	2	May 2013
Uber	Ride hailing	2013	Wholly owned subsidiary	Acquired by Didi Chuxing in 2016 but owned 20% shares in the combined firm.	2	Sept 2016
Didi Chuxing	Ride hailing	2012	Merger of Didi Dache and Kuaidi Dache; acquired Uber China in 2016	Over 80% market share	2	Sept 2016

TABLE 2: SUMMARY OF SECOND PHASE INTERVIEWS

August 2014 (9/52)	<ul style="list-style-type: none"> • Lunch meeting with the CEO and COO of a multi-billion dollar private sector enterprise in China (2) • Dinner meeting with a senior business and technology correspondent of a major national TV channel (1) • Drinks with two senior executives of a large technology firm in China (2) • Dinner with senior executives from Chinese internet firms and former senior executives of western internet firms (3) • Meeting with three senior business Professors at a top Chinese University (3) • Meeting with senior academics from the Technology and Innovation department in a top university business school (8) • Informal discussions with other invited speakers after a corporate event over drinks and dinner, including a private investor, a tech entrepreneur, a former executive of a multinational conglomerate in China, two senior government officials, a journalist, and the CEO and COO of a large corporate (8) • Social gathering over dinner including tech entrepreneurs and business executives, senior partners of PE and VC funds, business consultants, senior civil servants, and university professors (10) • Social gathering involving senior professionals from the private and public sectors (15)
June 2015 (10/45)	<ul style="list-style-type: none"> • Dinner with the CEO and MD of a large Hongkong listed private sector company in China (2) • Lunch with the CEO of a large American multinational firm in China (1) • Meeting over drinks with the head of a large PE fund in China (1) • Coffee meeting with a business and technology correspondent of a major national newspaper (1) • Lunch with a senior business professor at a top Chinese university and members of his research group (5) • Lunch meeting with two European business professors working in two top Chinese Universities (2) • Meeting and lunch with the Head of business school in a top university in China (1) • Dinner with senior executives of a large conglomerate after an invited talk at a corporate event (5) • Discussions with senior and mid-level Chinese business executives after an invited talk at a corporate event in China (15) • Social gathering involving senior professionals from the private and public sectors (12)

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(8/38) | <ul style="list-style-type: none"> • Extended business/social trip with the CEO of a large Chinese conglomerate, a former senior executive of a large Chinese technology firm and successful investor, and the CFO of a large Chinese private sector firm (3) • Lunch meeting with senior civil servants and government officials of a major city (3) • Lunch and informal discussions with the China Head of a major multinational business/tech consulting firm; Head of a Chinese business association; Head of a Chinese and Japanese Business Association; Head of a major think tank in China (4) • Meeting with the CEO of a major American business consulting firm in China and the China head of an American PE Fund (2) • Discussions with senior and mid-level business executives in a large Chinese conglomerate after an invited executive talk (10) • Lunch and afternoon discussions with the CEO of a large conglomerate and the head of a think tank and his deputy (3) • Dinner with the CEO of a large private sector business and former CEO of a large retailer in China (1) • Group social gathering involving mostly senior professionals from different sectors (12) |
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(10/48) | <ul style="list-style-type: none"> • Informal discussions over dinner with senior executives after a keynote address at a major business event (6) • Meeting with a former China executive of western internet firm and founder of a successful sharing economy business (1) • Meeting with a Senior executive of a Chinese internet firm and a mutual friend (2) • Lunch with an American Angel Investor in China and a mutual friend (2) • Afternoon tea with a private investor in Chinese and western internet firms (1) • Extended meeting and informal discussions with the CEO of a large Chinese conglomerate (1) • Lunch and afternoon tea with the CEO of a large state owned enterprise in China and a private investor (2) • Group dinner including entrepreneurs and senior business executives, senior business consultants, senior civil servants and government officials, university professors, and a senior executive of a foreign multinational (10) • Group dinner including senior civil servants in municipal government, senior business executives, private business owners, tech entrepreneurs, angel investors and senior business consultant (11) • Group social gathering involving senior professionals from different sectors (14). |

TABLE 3: DESCRIPTION OF THE SECONDARY DATA

Data types	Data sources	Data amount	Data use
News Reports and Commentaries	Articles from English and Chinese Newspapers, Business Magazines and the websites of major news agencies, including but not limited to <i>The Financial Times</i> , <i>Wall Street Journal</i> , <i>The Daily Telegraph</i> , <i>The Guardian</i> , <i>The China Daily</i> , <i>The People's Daily</i> , <i>The Economic Daily</i> , <i>The Economist</i> , <i>Fortune</i> , <i>Business Week</i> , Bloomberg, CNN, BBC, Xinhua News and others.	1534 articles concerning WIFs in China, major initiatives by CIFs, the latest development in the digital economy and e-commerce in China, new policy initiatives and changes concerning internet services and digital firms in China, and other relevant background information	Primarily used as a secondary source of information to initiate questions and discussions during interviews, confirming chronology of events and major developments; and triangulating and validating data collected from the interviews.
Research Reports (public)	Research reports from Business Consulting Firms, Research Institutions and Chinese government agencies, such as McKinsey, BCG, Bain, Gartner, iResearch, Ministry of Industry and Information Technology, China Academy of Social Sciences. Some commercial reports by major investment banks, (Citi, BAML, JP Morgan and HSBC) on these internet firms were also obtained.	A total of 86 reports containing comprehensive background information about Western and Chinese internet firms, the digital economy and e-commerce development in China in general and in different niche areas and regions, and emerging technological and business trends in China and globally	Primarily used as background information and the business context for understanding, validating and analysing the data collected from the interviews. Selected reports are referenced directly in the paper.
Reports and other internal documents by relevant internet firms (Private)	Reports produced by western and Chinese internet firms, for example, from Ali Research, Baidu and Tencent. Some of these reports are publicly released, but internal reports from some case studies not publically available were also obtained through personal contacts.	17 reports on major strategic initiatives and significant emerging technological and market trends concerning Chinese and Western Internet Firms in China	These reports were mainly used to validate the chronology of major events and provide written accounts of key developments in the case studies.
Web portals	A range of Chinese web portals are regularly monitored, for example, TouTiao.com, Shujuju.cn, China Big Data Industrial Observation (Cbdio.com), and links to relevant reports, news and commentaries via personal Wechat contacts and their Moments.	These portals are mainly used to generate lead to new research reports, news release and relevant new initiatives by Chinese and Western internet firms, major changes in regulations and policies in China, and on-going development of the digital economy, infrastructure and services	Mainly provide background information and identify links to current and historical developments in China on a regular basis. Also links to major news and research reports in relevant areas.

TABLE 4: THE INSIDE VIEW - FINDINGS FROM THE FIRST PHASE INTERVIEWS

FIRST ORDER CATEGORIES	SECOND LEVEL THEMES	AGGREGATE DIMENSIONS
Global business model uncompetitive in China	Imposing global business model in China	Conceding multiple strategic advantages to Chinese competitors
Global business model not adapted for Chinese market		
Imposing global business model on Chinese acquisitions		
Products and services aimed at middle class users in first tier cities only		
Reluctance to diversify with narrow range of products and services		
Rigid adherence to group pricing strategy		
Limited and narrow sources of revenues		
Failing to compete with more aggressive Chinese competitors	Failing to cope with extreme competition	
Failing to respond quickly to extremely intensive competition		
Rigid adherence to western competitive strategies and tactics in China		
Failing to capitalise on group technological advantages in competition		
Unable to compete with very large numbers of local competitors		
Unable to cope with more determined competitors	Problems with business partners and local acquisitions	
Incompatible and poorly aligned local partners in China		
Failing to capitalise on the market dominance of local acquisitions		
Failing to manage relations with local partners		
Failing to acquire local market leaders in China		
Failing to utilise proven expertise and relations (<i>Guanxi</i>) of local partners		
Focusing only on formal business partnerships through strategic alliance, merger and acquisition		
Inability to develop non-transactional relations with supporting companies and user communities	Imposing global technological platform in China	
Technological platform not designed for China’s internet environment		
Rigid adherence to global technological platform and reluctant to adapt		
Imposing global technological platform on new acquisitions in China		
Products and services not designed or adapted for Chinese consumers	Centralised organisational structures and slow decision making	Operationally underperform Chinese Competitors
Organisational structure too rigid for rapidly changing consumer behaviours		
Local management lacked sufficient autonomy		
Decision making by head office too slow for China		
Decisions by head office inappropriate for China		
Inability to respond quickly to local competitors		
Relying on expatriates to manage Chinese operations		
Reluctance to empower local talents to manage operations in China		
Imposing international business practices that are ineffective in China		
Slow response to local competition and changing customer demands		

Poor understanding of Chinese culture and user preferences	Poor understanding of Chinese market	Failing to Understand and Respond to the Chinese Business Environment
Poor understanding of user behaviours in China		
Poor understanding of user segments in China		
Failing to appreciate market differences between China and the West		
Failing to understand diversity in user demographics, expectations and preferences across different cities and regions		
Failing to appreciate geographical differences in different parts of China		
Web design, products and services and brand promotion targeted at first tier cities only – ignoring the rest of China		
Poor understanding of the internet environment in China	Failing to adapt for China’s Infrastructures and support services	
Failing to adapt for the uneven development of telecommunications infrastructure and internet accessibility and speed in different regions		
Failing to appreciate the limitations of banking systems in China		
Limitations of transportation infrastructure and logistics services in China		
Online security and user protection concerns due to inadequate regulations		
Inadequate third party supporting services in China		
Weak protection of IP rights		
Inability to manage or maintain complex relations with Chinese governments and their different departments		
Inconsistent and rapidly changing regulations both nationally and locally		
Unwilling to cooperate with Chinese government		
Regulations interpreted and implemented differently and inconsistently across cities and regions		
Regulations and government relations are viewed negatively rather than as potential opportunities		

TABLE 5: MAIN FINDINGS FROM FIRST PHASE INTERVIEWS

Key themes	Main issues	Typical quotations	Why more crucial for WIFs than others	Firms
Imposing global business model in China	<ul style="list-style-type: none"> • Uncompetitive against CIFs • Fewer sources of revenues than CIFs • Narrower range of services than CIFs • Ineffective for trust building 	<i>'We were pretty confident at the beginning—it worked well everywhere else, right? But things were falling apart—and it was fast. The competition level we faced in China was much stronger than we had in any other countries, and this created many uncertainties and challenges on our performance'</i> [Former eBay executive]	<ul style="list-style-type: none"> • Need for multiple sources of revenues • Less transactional and more complex relations with users • Users at centre of both value creation and consumption 	eBay Google Amazon Groupon
Failing to cope with extreme competition	<ul style="list-style-type: none"> • Very large number of competitors • Local competitor stronger and more determined • More CIFs fail than WIFs but some CIFs survive • More competitive than any other markets 	<i>'We were hit by a double whammy in China. One is the business environment in general. We definitely underestimated the challenges. Another one is the local competition level. The local firms are real contenders. We might have some advantages, but things change so fast and you need to be fast to respond to this competition. The ability to retaliate is extremely important, but we do not have sufficient autonomy to do so.'</i> [Amazon Executive]	<ul style="list-style-type: none"> • Low technological entry barriers • Winner takes most mentality and market structure • Exclusive market focus on China by local competitors 	Yahoo eBay Groupon Uber
Problems with business partners and local acquisitions	<ul style="list-style-type: none"> • Failing to capitalising on Chinese partners and local acquisitions • Imposing group management style on local acquisitions 	<i>When Yahoo took over 3721.com, we were all very optimistic. However, Zhou Hongyu (founder of 3721.com) felt that the original Yahoo employees were overpaid and lazy; and 3721.com employees felt alienated because Yahoo imposed its reporting and management style on them. It was toxic.</i> [Former Yahoo Executive]	<ul style="list-style-type: none"> • Extreme volatility demands cultural sensitivity & deep local knowledge • Rapid changes amplify limitations of western management styles 	Yahoo eBay Groupon
Imposing global technological platform on operations in China	<ul style="list-style-type: none"> • Platforms not purpose-designed for the Chinese market • Platforms not attuned for local infrastructure and user behaviours 	<i>'At that time, when Chinese users browsed the internet they would open up six or seven windows, moving from one window to the next. There would often be pop-up windows when clicking from one story to the next. The reason for this was because the internet speed was very slow and unreliable. By opening up multiple windows, users could read one page while waiting for the others to download. As a result, the design of</i>	<ul style="list-style-type: none"> • Cultural sensitivity crucial to success • Adapting platform designed for other markets can't compete with purpose build platform 	Yahoo eBay Google Amazon

		<i>all Chinese web portals was usually several screens long, with numerous links cramped onto the page. In contrast, Yahoo insisted on maintaining the simplicity and clean global design of its web portal in China, which worked well in the USA but it was not suited for the market conditions and consumer behaviours in China.</i> [Former Yahoo Executive]	<ul style="list-style-type: none"> • Flaws in platform leaves room for competitors to launch better platforms in a very large market 	
Centralised organisational structures and slow decision making	<ul style="list-style-type: none"> • Decision making too slow for rapidly changing environment • Head office and expats lacked local knowledge for strategic & operational decision making • Lack of autonomy alienated local talents 	<i>'Like most other global firms that have built their technological platforms or products for the global market, Yahoo tried to standardise its web portal platform for all markets. Under normal circumstances there's nothing wrong with such an approach, but in the Internet market in China, the ability to adapt and to customise according to the needs of the market is critically important, because consumer preferences are evolving extremely rapidly. When Yahoo China's local management has limited say in how the product can be adapted to local needs, our fate is sealed.'</i> [Former Yahoo executive]	<ul style="list-style-type: none"> • Ultra volatility & rapid change call for local autonomy and fast decision making • Cultural and political sensitivity critical for internet services • Alienating local talents detrimental to internet firms 	Yahoo eBay Google Amazon Groupon
Poor understanding of Chinese market	<ul style="list-style-type: none"> • Market segments very different from the West • What works in the West might not work in China • Failing to recognise market differences between urban and rural areas and between different Provinces 	<i>'Chinese users were not comfortable with completing transactions online during that time. There were too many "what if?" uncertainties: What if the seller is a scam? What if product quality is poor? In the US, we had a well-established system to tackle these problems, but here, the relevant financial, logistics services and regulations are rather limited. And they (Headquarters) completely ignored these issues that have fundamental impacts on our customer experience'</i> [Former eBay Eachnet Executive]	<ul style="list-style-type: none"> • Detrimental to success in culturally sensitive markets • Chinese internet market materially different from the West 	Yahoo eBay Google
Failing to manage regulatory environment, government relations and infrastructure	<ul style="list-style-type: none"> • Competitors better adapted for local infrastructure and support services • Competitors more skilled at interpreting and managing regulations and governmental relations 	<p><i>'Government censorship did not stop us succeeding in Malaysia, Saudi Arabia or Africa, why should it stop us succeeding in China? It is a convenient excuse to 'save face'. The real reason for our exit from China was because we failed commercially. We could not compete with Baidu.'</i> [Former Google Executive].</p> <p><i>'People always immediately associated China with IP rights and censorship, which is rather simplistic. What about culture, the supporting mechanism and the level of competition? Chinese customers have their own preferences when it comes to their online activities. Two things are important here: what you can deliver and how you deliver it. We were not good at either of them in China.'</i> [Former Yahoo Executive]</p>	<ul style="list-style-type: none"> • Essential for survival in politically and culturally sensitive markets • Internet business relies on local infrastructure and support services for survival • Internet market in China materially different from the West 	Google Amazon eBay

TABLE 6: THE OUTSIDE VIEW - FINDINGS FROM THE SECOND PHASE INTERVIEWS

FIRST ORDER CATEGORIES	SECOND LEVEL THEMES	AGGREGATE DIMENSIONS
‘Huge crowd strategy’ by competitors – too many competitors to beat	Very large number of competitors in China	Failing to Understand and Respond to the Chinese Business Environment
‘ <i>Baili Tiaoyi</i> ’ (one in a hundred) versus ‘ <i>Wanli Tiaoyi</i> ’ (one in ten thousands)		
Difficulties to dominate and maintain dominance in a massive market		
Lack of patience and overly optimistic about ability to dominate the massive Chinese internet market within a very short period		
Underestimate the determination and strength of Chinese competitors – whoever blinks first loses	Chinese competitors are more aggressive and more determined	
Overly pessimistic after initial setbacks		
Admitting defeat and withdraw from China too quickly after setbacks		
Business interests in many markets versus exclusive focus on Chinese market		
Failure to acquire market leaders in China		
Multiple decisions made and implemented on the same day by Chinese internet firms versus slow decision making in western internet firms		
Better to be hated by being aggressive and taking risks in China than to be forgotten or ignored by playing safe		
Target-driven versus process-driven in weak regulatory environment - achieving targets by all legally allowed means with ’no holds barred’		
Short lead time to establish competitive advantages in digital business		
Lack of sustainable advantages in core technologies and advanced knowhow	New digital rules of the game	
Importance of cultural sensitivity in creating superior user experiences in digital business		
Sources of value added in digital business compared with other sectors favour local firms – limited advantages and equal starting point		
<i>The Art of War</i> inspired winning business strategies under different circumstances ingrained in Chinese history and culture	Failures by strategies	Conceding Multiple Advantages in Strategy Making and Communication to Chinese Competitors
<i>The Thirty Six Stratagem</i> inspired winning competitive strategies and tactics for different situations embedded in everyday language		
Mao’s military strategies and tactics enabled effective strategy making and communication when fighting stronger competitors		
Underestimate Chinese competitors and failure to recognise the drive, ambition, work ethic, determination and ambition of Chinese entrepreneurs		
Imitate and then fine-tune for China as an effective innovation strategy by Chinese internet firms	Ineffective innovation strategy	
Failing to recognise and compete with Chinese internet firms on new products and services designed for Chinese users and customers		
Result-driven (rather than process-oriented) innovation strategies by Chinese		

internet firms		
Willingness by Chinese entrepreneurs to take risks in innovation		
Long term plans ineffective in volatile internet market compared with ‘quick fire’ and ‘low hanging fruit’ innovation strategy		
Lack of local autonomy to adapt products, web designs and marketing approaches for Chinese market or introduce new services	Lack of local autonomy and slow decision making	Underperforming Chinese Competitors in Operation and Execution
Expatriates lacked cultural sensitivity to manage operations and relations		
Foreign executives fail to integrate into important social and business circles		
Important decisions made by people in the head office in the West with limited understanding of Chinese market and culture		
Centralised organisational structure and differences in time zones hindered communications resulting in slow decision making in western internet firms		
Senior Management from HongKong/Taiwan and employees from Shanghai and Beijing have limited understanding of lives in other parts of China	Failing to be embedded in local market	
‘Quick and dirty’ product development (good enough) more effective than superior user experience and exceeding user expectations in China		
Crowded website design with rich content corresponds to bustling, prosperous, exciting and lively; versus simple, clean, elegant design implies desolate, depression, dull and lifeless (cultural differences)		
Inherent competitive advantages of the local internet firms - ‘ <i>The mighty dragon is no match for the native serpent</i> ’ (强龙难压地头蛇)		
‘ <i>Sharks are only powerful in the ocean, but they can’t beat the Chinese Alligators in the Yangtze River</i> ’ (Quoting Alibaba’s Jack Ma on eBay)		
Branding and marketing efforts focusing on white collar middle class customers at huge costs versus welcoming all customers at low /no costs		
Aggressive, result-driven marketing tactics (e.g. annoying pop-ups) versus indirect brand building with limited direct short term results		
Ineffective communications by email and instant messaging in English versus face to face meetings, entertaining clients, and telephone calls in Chinese		
Western educated employees with similar ideas and styles versus employees from diverse backgrounds with different ideas and approaches		

TABLE 7: MAIN FINDINGS FROM THE SECOND PHASE INTERVIEWS

Key Themes	Main Issues	Typical quotations	Why more crucial for WIFs	Firms
Losing by Numbers: One in a Hundred against One in a Million	<ul style="list-style-type: none"> • Competition is relative • Very large number of local competitors 	<p><i>"The internet market in China is the most complicated and competitive in the world. The marketing and communication of international firms are often ineffective and too mild to reach customers."</i> [Senior Business Consultant]</p> <p><i>'The bloodiest battles today are fought amongst Chinese internet firms themselves as they enter the market niches of each other and aggressively expand into new areas, not between western and Chinese internet firms'.</i> [Tech Entrepreneur]</p>	<ul style="list-style-type: none"> • Low entry barriers result in very large number of local competitors • Weak, complex and unpredictable regulatory environment leads to extreme competition 	Groupon Yahoo eBay Amazon
Failure by Strategies: From 'The Art of War' to 'The Thirty Six Stratagems'	<ul style="list-style-type: none"> • Western strategies not aligned with Chinese history and culture • Strategy making and communication by WIFs less effective than CIFs 	<p><i>'Withdraw when the enemies advance, advance when they retreat; harass when they rest, and fight when they are exhausted'</i></p> <p><i>'First encircle cities from rural areas, and eventually take control of the cities and the whole country'</i> [People Quoting Jack Ma of Alibaba quoting Chairman Mao]</p>	<ul style="list-style-type: none"> • Fundamental differences between internet firms and other industries • What worked in the west might not work in China • WIFs have no precedents to draw on in internet services 	eBay Amazon Google Groupon
Whoever Blinks First Loses: Beaten By More Determined Competitors	<ul style="list-style-type: none"> • More determined competitors • CIFs totally committed to Chinese market 	<i>'In circumstances like these—where the Chinese company has a head start, total domestic focus, powerful backers, and virtually limitless cash to draw on—I think the chances of the foreign company winning are virtually nil, even if it does everything right.'</i> [Senior Business Consultant]	<ul style="list-style-type: none"> • More determined competitors • CIFs totally focused on Chinese market 	Uber Google eBay Groupon Yahoo
Digital Rules: Differences between Internet and Traditional Businesses	<ul style="list-style-type: none"> • Short life cycle • Low entry barrier • Need for multiple sources of revenues 	<i>"Baidu regards its customers, the businesses that advertise on its platform, as 'fish'; while the individual users of its platform as 'water'. There can't be fish without water, which is particularly important for internet firms. As a result the key to success for internet firms is superior 'user experience', rather than 'customer satisfaction' as in traditional industries. User experience is far more difficult to get right than customer satisfaction, which depends on deep understanding of culture."</i> [Senior Business Executive]	<ul style="list-style-type: none"> • Strategic and operational challenges due to differences between internet firms and other sectors • WIFs have few technological advantages but many disadvantages 	Google Amazon eBay Yahoo Groupon Uber
Failing to Be Embedded in the Local Market	<ul style="list-style-type: none"> • Failure to understand local market • Failure to attract and empower local talents • Failure to adopt 	<i>For western internet firms in China, it all boils down to understanding other people's ways of thinking and doing things. They have to understand local governments, their employees, business partners, users and clients. Looking back, the western internet giants that failed were simply out of tune</i>	<ul style="list-style-type: none"> • Focusing on middle class market and ignore other user segments • Internet business has little value if it fails to attract and 	Google eBay Groupon Yahoo Amazon

	management styles suitable for China	<i>with the Chinese market. They didn't clearly see the importance of understanding Chinese culture; they talked to the wrong people in the wrong ways about the wrong things. [Senior Business Consultant]</i>	retain users	
Innovating by Experimenting	<ul style="list-style-type: none"> • No precedents to draw on • Slow to innovate in technologies and services 	<p><i>'Crossing the river by touching the rocks under water'. [This Quote from Deng Xiaoping was used on numerous occasions]</i></p> <p><i>'Innovation in China means adaptation and fine tuning, and their[WIFs] aggressive strategy would never work in China' [Senior Business Executive]</i></p>	<ul style="list-style-type: none"> • CIFs can rapidly introduce and fine-tune a large number of innovations at low costs • User centred innovations through continuous user engagement 	<p>Groupon</p> <p>Amazon</p> <p>Yahoo</p> <p>Google</p> <p>eBay</p> <p>Uber</p>

TABLE 8: SUMMARY OF KEY FINDINGS

	The Inside View (First Phase)	The Outside View (Second Phase)
Failing to Understand and Respond to the Chinese Business Environment	<ul style="list-style-type: none"> • Poor understanding of Chinese market • Failing to adapt for China's regulatory environment, government relations and Infrastructures 	<ul style="list-style-type: none"> • Large number of competitors • Aggressive and determined local competitors • Fundamental differences between internet services and other industries
Conceding multiple strategic advantages to Chinese competitors	<ul style="list-style-type: none"> • Imposing global business model in China • Failing to cope with extreme competition • Problems with business partners and local acquisitions 	<ul style="list-style-type: none"> • Failure in strategy making and communications • Ineffective innovation strategies
Underperforming Chinese Competitors in Operation and Execution	<ul style="list-style-type: none"> • Imposing global technological platform in China • Centralised organisational structures and slow decision making 	<ul style="list-style-type: none"> • Failing to be embedded in China
Prevailing Narratives for the Failure of all WIFs in China	<ul style="list-style-type: none"> • Lack of Strategic Determination and Patience in China 	<ul style="list-style-type: none"> • Failing to Acclimatise to China's Business Environment
Why have All WIFs Failed in China?	<p>The 'Perfect Storm': Few genuine competitive advantages and underperforming local competitors in nearly every aspect</p>	

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Author Biography

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